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UNCLAS SECTION 01 OF 02 ROME 005989

SIPDIS

TREAS FOR OASIA HARLOW, CARNES
PARIS FOR USOEC

SENSITIVE

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E.O. 12958: N/A

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SUBJECT: GOI SELLS REMAINING STAKE IN TELECOM ITALIA

¶11. (SBU) SUMMARY: UNEXPECTEDLY, ON DECEMBER 9, THE GOI SOLD ITS RESIDUAL 3.5 PERCENT SHARE IN FORMERLY STATE-OWNED INCUMBENT OPERATOR TELECOM ITALIA. ECONOMIC ANALYSTS AND EMBASSY CONTACTS AGREE THAT THE SALE WAS DICTATED BY BUDGET NEEDS, RATHER THAN BY NATIONAL COMMUNICATIONS POLICY CONSIDERATIONS. TELECOM ITALIA REMAINS CLOSELY CONNECTED TO THE GOI, AND ENJOYS MANY OF THE ADVANTAGES IT HAD AS FORMER PARASTATAL INCUMBENT.
END SUMMARY.

¶12. (SBU) THE GOI SOLD ITS RESIDUAL 3.5 PERCENT SHARE IN FORMER INCUMBENT OPERATOR TELECOM ITALIA FOR APPROXIMATELY 1.4 BILLION DOLLARS ON DECEMBER 9. INFORMED OBSERVERS VIEWED THE UNEXPECTED SALE AS DICTATED PRINCIPALLY BY BUDGET, RATHER THAN BY COMMUNICATIONS POLICY, CONSIDERATIONS. THE GOI NEEDS TO FIND WAYS TO CUT THE BUDGET DEFICIT AND LONG-TERM DEBT. (NOTE: THE DEFICIT/GDP RATIO IS WELL ABOVE THE 2.1 PERCENT TARGET, AND THE DEBT/GDP RATIO IS LIKELY TO REACH 110 OF GDP BY AND END-2002.) SOME FINANCIAL AND ECONOMIC ANALYSTS HAVE CRITICIZED THE GOI FOR SELLING AT A TIME OF DEFLATED MARKET VALUES. THEY ARGUE THAT THE GOI SHOULD HAVE SOLD ITS SHARES WHEN PRICES WERE CONSIDERABLY HIGHER IF IT INTENDED TO SELL AT ALL. FURTHERMORE, CRITICS ARGUE THAT THE GOI SALE OF SUCH A SIGNIFICANT PERCENTAGE OF STOCK TO INSTITUTIONAL INVESTORS, AT A PRICE BELOW TRADING VALUE, PUSHED DOWN UNCLASSIFIED

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SHARE PRICES AND PENALIZED SMALL INVESTORS.

¶13. (SBU) ON THE OTHER HAND, THE COMMUNICATIONS SECTOR LARGELY WELCOMED THIS SALE, IRRESPECTIVE OF THE DRIVING MOTIVES. PRESS REPORTS, AND COMMENTS FROM OUR TELECOM ITALIA AND COMMUNICATIONS AUTHORITY CONTACTS, AGREE THAT THE RESIDUAL GOI OWNERSHIP IN TELECOM ITALIA WAS "USELESS." IT DID NOT GIVE THE GOI ANY MORE AUTHORITY OVER TELECOM ITALIA THAN IT DERIVES FROM ITS "GOLDEN SHARE" (SEE PARA 43 BELOW). YET IT CONVEYED THE NEGATIVE IMPRESSION, TO "FOREIGN INVESTORS IN PARTICULAR," THAT THE GOI WAS STILL DEEPLY INVOLVED IN TELECOM ITALIA.

¶14. (SBU) THE GOI STILL RETAINS A "GOLDEN SHARE" IN TELECOM ITALIA, WHICH EFFECTIVELY AMOUNTS TO IS A VETO POWER OVER POSSIBLE MERGERS, DIVISIONS, AND TRANSFER OF OPERATIONS ABROAD, AND/OR CONCENTRATIONS OF OWNERSHIP CONCENTRATION. THE GOI HAS NEVER EXERCISED ITS GOLDEN SHARE SINCE IT WAS INTRODUCED WHEN TELECOM ITALIA WAS PRIVATIZED IN 1997, ALTHOUGH THIS HAS NOT PREVENTED THE GOVERNMENT FROM INFLUENCING TELECOM ITALIA DECISIONS THROUGH POLITICAL SUASION. (NOTE: THE GOI DID HOWEVER THREATEN TO USE IT WHEN DEUTSCHE TELEKOM EXPLORED THE POSSIBILITY TO BUYING TELECOM ITALIA.). BY VIRTUE OF THIS GOLDEN SHARE, THE MINISTRY OF ECONOMY AND FINANCE HOLDS ONE SEAT ON TI'S BOARD. THE MINISTRY OF ECONOMY AND FINANCE, AS A TI SHAREHOLDER, HAS HELD A SECOND GOI SEAT. HOWEVER, WE HAVE BEEN TOLD THAT, GIVEN THIS SALE, THE TREASURY BOARD MEMBER WILL SOON RESIGN.

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¶15. (SBU) COMMUNICATIONS MINISTER MAURIZIO GASPARRI HAS INDICATED PUBLICLY THAT HE VIEWS THE GOI'S GOLDEN SHARE AS OBSOLETE. WE HAVE FURTHER HEARD THAT, IN LIGHT OF THE LIBERALIZATION OF THE ITALIAN TELECOMMUNICATIONS MARKET, THE GOI PLANS TO ELIMINATE THIS PROVISION ENTIRELY IN JANUARY 2003. MOREOVER, OUR CONTACTS INSIST THAT THE GOI IS UNLIKELY TO EVER EXERCISE ITS GOLDEN SHARE, AS IT WOULD VIOLATE EU RULES, LEAVING ITALY SUBJECT TO AN INFRACTION PROCEDURE.

¶16. (SBU) TELECOM ITALIA PROVIDES UNIVERSAL TELEPHONE SERVICE AND ADMINISTERS NATIONAL SECURITY NETWORKS. MOREOVER, TELECOM ITALIA COMPANY EXECUTIVES ADMIT TO US

THAT THE GOI INFLUENCES COMPANY POLICIES AND STRATEGIES. TELECOM ITALIA COMPETITORS, BOTH ITALIAN AND FOREIGN, ALSO HAVE TOLD US THAT THE GOI HAS ALLOWED TELECOM ITALIA TO RETAIN MANY OF ITS FORMER INCUMBENT PRIVILEGES. EVEN WIND/INFOSTRADA EXECUTIVES (PROTECT) HAVE TOLD US THAT THEY OFTEN FEEL DISCRIMINATED AGAINST. (NOTE: WIND/INFOSTRADA IS A COMMUNICATIONS COMPANY THAT IS OWNED BY THE GOI THROUGH ENEL, THE STATE OWNED NATIONAL ELECTRICITY CONGLOMERATE.)

17. (SBU) COMMENT: THE UNEXPECTED SALE OF THE GOI'S REMAINING FINANCIAL STAKE IN TELECOM ITALIA APPEARS TO

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ACTION EUR-00

INFO	LOG-00	AGRE-00	AID-00	AIT-03	CEA-01	CIAE-00	CIP-00
	CTME-00	INL-00	DINT-00	DODE-00	ITCE-00	DOTE-00	SRPP-00
	EB-00	EXME-00	E-00	FAAE-00	UTED-00	FCC-01	VC-00
	FRB-00	H-01	TEDE-00	INR-00	ITC-01	JUSE-00	LAB-01
	L-00	VCE-00	AC-01	DCP-01	NSAE-00	NSCE-00	OES-00
	OMB-01	DHS-00	OPIC-01	PA-00	PRS-00	ACE-00	SP-00
	SSO-00	SS-00	STR-00	TEST-00	USIE-00	FMP-00	DRL-02
	G-00	SAS-00	/014W				

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R 160831Z DEC 02
FM AMEMBSSY ROME
TO DEPT OF TREASURY WASHDC
SECSTATE WASHDC 7330
INFO USDOC WASHD
USEU BRUSSELS 3004
AMEMBASSY PAIS
AMCONSUL MILAN
AMCONSUL NAPLES 7344
AMCONSUL FLORENCE

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SUBJECT: GOI SELLS REMAINING STAKE IN TELECOM ITALIA

BE A PRIMARILY A FINANCIAL MOVE TO CUT THE PUBLIC DEBT, RATHER THAN AN HARBINGER INDICATION OF CHANGING ITALIAN COMMUNICATION POLICY. THE GOI RETAINS STRONG TIES WITH AND INFLUENCE OVER TELECOM ITALIA, AND THESE TIES ARE LIKELY TO , REMAIN UNAFFECTED BY EITHER THIS SALE OF STOCK OWNERSHIP OR THE FORMAL RELINQUISHMENT OF "GOLDEN SHARE" RIGHTS.

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